

## CURRENT ISSUES IN FOOD DISTRIBUTION

by

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The most serious problem in food distribution is productivity.

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I appreciate this opportunity to be a part of your meeting, and I am more than a little flattered by the honor of your invitation.

Yours is a remarkable organization with the capacity for significant impact on the industry you seek to make better.

It is exciting to consider the potential of your programs in research and information--whereby your Society defines the problem areas--stimulates and coordinates the research toward solutions--and serves as a clearing-house for the accumulated information.

Our industry needs those solutions--we needed some of them yesterday--and we need the information from which solutions are produced.

The answers you find will be helpful in charting the future course of the industry, by improving its efficiency in keeping with the need. You can play a vital part in helping the food industry be a continuing positive influence in maintaining the highest standard of living in the world.

With the leadership of men like Harry Schreiber and Si Trieb--and the enthusiasm and dedication I see in your organization--your ambitious goals

are attainable. You can be sure that we at Colonial and the entire food industry want to work with you in every way we can to help achieve these goals.

You will be exploring in depth, for the next two days, virtually all of the leading current issues and the problem areas in the food distribution industry today. Any one of the major issues might well have served as your keynote theme. There is probably nothing really new which can be added to your program.

But there is one issue which stands alone. To my way of thinking, it is the most serious of our problem areas, and the most volatile among our many mutual concerns.

That issue is productivity.

My message to you this morning is one of concern.

Concern that our productivity is not what it used to be, and, worse yet, is lagging further behind.

Concern that our productivity is far short of what we know it should be, especially in the face of the industry problems which are caused and worsened by the lagging productivity.

It should come as no great surprise to any of us that our productivity

has not been keeping pace with the mounting costs of doing business. We just haven't kept up with the decimal points on a daily basis.

The situation we find ourselves in today has been a gradual process of deterioration--much like the erosion of a mountainside by the quiet daily flow of a tiny stream.

So we are not suddenly in a predicament that wasn't here yesterday. We are simply more alarmed at the realization that it is a bigger predicament than we thought. And we have to admit that there were some clear warnings, which some of us have taken too lightly.

What's happening to us and what's not happening? How do we go about getting things back on track?

In the United States, productivity of the total system has been improving steadily for the past 85 years. There has been a leveling off in the rate of improvement on an annual basis, but productivity in this country is still greater than that of any other nation. We are not widening the gap as we have in the past, but we are still well ahead of our closest competitors.

But it's a different story in the food distribution industry, and in the retail food industry in particular.

Until quite recently, productivity was improving each year, even if at a slower rate than other industries enjoyed. Between 1970 and 1972, the improvement was so slight as to be considered holding our own, and by 1973, we were on dead center. Last year our productivity began its decline.

The Economic Research Service of the U.S. Department of Agriculture reported recently that food retailers

today are using three percent more manhours per unit of product moved than was required in 1967.

In the same period, says the report, the processing side of the industry has become 17 percent more productive.

It seems a paradox that productivity has declined to this degree in one segment of the distribution side, while food manufacturing increased its productivity at an astonishing rate. There can be no satisfactory explanation based on a single reason.

But the really disturbing fact is that while our productivity has gone down, our unit costs have continued up, especially in labor and energy. We have seen an acceleration of wage increases recently, especially in some categories where the pay scales, admittedly, had not reached realistic levels until the last few years.

Last year alone, labor costs for marketing domestic food products increased by 15 percent nationally--twice the rate of increase of the past 10 years. The increase was due almost entirely to the rise in hourly labor costs--not to any significant increase in the number of manhours worked.

The result has been the creation of an untenable situation--paying more dollars to produce less. In our industry, there is simply no more room to absorb this deficit. As you all know, the retail food industry is just emerging from two disastrous years when profitability, measured by any basis, was at an unacceptable low level.

This is not to say that there hasn't been an awakening to the problem. There have been significant beginnings

in the direction of improved productivity. Gains will not come easy but the rewards will be worth the effort.

First of all, there is the industry obligation to the public to operate as efficiently as possible. Food purchases constitute a significant part of consumer disposable income, and, being just about nonpostponable, maintain a very high profile to the general public and especially to the political community.

Secondly, if one company can operate more efficiently than its competitors, it will eventually become the market leader. The money saved by increased production can be used to lower prices, buy stronger promotions, or even pay for additional capital equipment to increase production even further.

Increased productivity can also provide more capital for investment, relieve pressure on profits, enlarge employee benefits, provide for better wages--thus attracting better talent to the organization and permit flexibility in a wide variety of operating and merchandising areas.

This situation--declining productivity and the concomitant need for its improvement--was the subject of many of the formal presentations and informal discussions at the National Association of Food Chains convention held in Washington just last month.

At this point, it might be well to define productivity as I will be using the word. I mean it to represent unit output per unit input of labor, capital and material. Too often, we have been guilty of a narrow definition of that word, thinking only in terms of labor productivity.

As our industry becomes more capital intensive and less labor

intensive, the broader definition becomes even more meaningful and important.

And our industry will become more capital intensive. The incentive is a relentless increase in hourly labor costs--which have shown a meteoric rise in the past five years--and show no sign of leveling off.

If the retail food industry is to continue to bring food to the American tables, at a cost in terms of disposable income lower than anywhere else in the world, we must find more efficient ways to complete the food distribution cycle. Greater use of capital equipment is one of the long range solutions to this problem. There are other avenues to pursue. Better methods and procedures, and the motivation of people are two that are frequently mentioned. Of course, a little less government regulation would also contribute to increased productivity!

Unfortunately for the retail food industry, this need for capital is coming at a time when that commodity is becoming increasingly scarce.

The equity market has all but dried up and the future prospects there look rather bleak, at least in the short run. Retained earnings, long an important source of capital funds are less of a source today because of depressed earnings in the industry, generally. Long term debt, bank financing and off balance sheet financing appear to be the major sources of funds, at least in short run. To successfully attract capital from these sources as well as to generate funds internally, we must become more profitable--and the best way to do that is to become more productive. We must make our retail facilities more productive by generating greater sales per square foot. Escalating land values

and near runaway construction costs make improvement in sales per square foot mandatory. This requirement also has unfortunate timing. While the total number of stores is decreasing, retail square footage is actually increasing--and doing so at a rate greater than growth in demand actually requires. Any wonder why forward-looking retail food firms are investing time and money investigating ways to improve productivity?

This area of new stores replacing older, obsolete facilities gives rise to the question of what kind of food facility will dominate the retail field over the next several years.

Recently, Family Circle Magazine and the National Association of Food Chains sponsored a survey into this area which was conducted by Robert Buzzell and Walter Salmon of Harvard University. I would like to share some of their findings with you.

- It would appear that the super-market or superstore, as most of you know it today, will continue to be the dominant retail food facility. These stores will be in the 25,000 to 30,000 square foot range with some few at 35,000 and above.

- The trend to more service delicatessen and bakery departments will continue, despite the higher operating costs and investment levels required by these two departments. The movement toward hot take-out foods in super-markets will also continue.

- An interesting sidelight on food consumption away from home. Despite the inflation that has taken place in food prices, food consumed away from home continues to make up a larger share of total food expenditures. The B.L.S. recently released preliminary results of the consumer expenditure study,

conducted in 1972 and 1973. This study shows an average for all American families of 27% of total food expenditures away from home. The proportion of the total spent away from home is highest among those population groups that are expected to increase most rapidly in the next five years. For example, among persons 25-34 years of age, the share of total food dollars spent away from home is 30%.

- Among one-person households, a rapidly growing segment of the population, the proportion is almost 40%. In addition, the proportions spent away from home increases with income. All of the anticipated shifts in the composition of the American population, then, are favorable to increased away-from-home eating. It is estimated that the proportion of food expenditures made for away-from-home eating will probably climb to 30% by 1980.

- It is not likely that the hyper-market will become a significant factor in the retail food field within the next five years. The huge capital investment required and the high break-even volumes needed will likely discourage major expansion of this type facility.

- Likewise, warehouse type operations offering limited product selection and fewer shopper amenities while boasting isolated success stories, do not appear to be a serious threat to the conventional superstore.

- Convenience stores growth is predicted to level off somewhat as longer store hours of conventional super-markets and the need for still higher margins further widen the price differential between these units and supermarkets.

So basically, the researchers are not predicting any radical change in

the retail food facility, and I am in general agreement.

We do, however, expect to see further implementation of technology and methodology already known and we are hopeful that we will see even more new technology and methodology developed. The hard economic facts of life require us to adopt new technology--more productive and efficient systems and procedures.

We are at least partly to blame for the fact that we are getting less productivity at a higher price. We haven't pushed hard enough to make things happen in technology. Occasionally, we haven't been flexible enough in adjusting our style to the advances we've seen. We've been too interested in sales and merchandising to the detriment of adopting new technology and systems.

Good old Pogo--the comic page possum of the Okefenokee Swamp--should be here to remind us again that "We have found the enemy--and he is us."

We have done injustice to ourselves and our industry--in not using the capacity or the ingenuity already available. In responding to our own needs, we have not moved ahead to any measurable degree but have barely kept pace.

For a long time, the food industry has been very much oriented to the roles of service and marketing, and much less oriented to technology as such. Any new device or method which is to help us must be successful from the merchandising point of view, as well as by its operating efficiency.

I don't believe there is any question that we have suffered from lack of communications in that regard. We are not always equal to the basic chore of putting together a realistic "shopping list" of our needs. Nor have we

properly communicated those needs to the technicians who could fill the order.

Additionally, there seem to be certain restraints always present. Some of these we have not resisted as vigorously as we should have.

Let me deal briefly with one of these restraints, outside the realm of technology. I refer to backhaul.

Simply stated, we are not realizing the full potential of productivity from our fleets or tractor-trailers. This is due to the current interpretations of what our trucks can haul, and under what circumstances, and according to which relationship exists between our company and those from whom we are purchasing, or to whom we are delivering.

Our fleet at Colonial last year covered a total of more than eleven and a half million road miles. By conservative estimate, 40 percent of those eleven and a half million miles were nonproductive or nearly so.

In citing the estimate of 40 percent, I have taken into account that some of the return miles involved trucks which were partially loaded with corrugated paper and empty containers. The other return miles involved empty trailers.

Our fleet represents a huge capital investment. The cost of maintenance and labor is considerable. Yet we were able to achieve only 60 percent of potential productivity, even in the midst of a national energy crisis.

Another example of undue restriction does involve technology--the electronic front-end scanner. This concept may never be brought to full

utilization because of the restraints which have been exerted or threatened since the beginning.

There is reason to believe that the front-end scanner has the potential for providing the retail food industry its greatest opportunity in years to increase not only work force productivity, but also inventory turnover and item stocking more closely attuned to customer needs.

Yet, for many months, the scanner has been the target for attacks by labor groups, consumer activists, and a small but active minority of Congressmen and state legislators.

We have an electronic test system under development at Colonial, as do most other major food chains. We have not determined when, or to what extent, we will introduce the system in our stores when we are ready.

Neither have we made any claims about what we think the system will accomplish in increased efficiency at the checkout lane, or in faster, better service to our customers. Nor have we even implied that introduction of the system would change our price marking methods.

Even so, there is legislation pending in the Georgia General Assembly that would make it mandatory to price mark every individual item offered for sale in Georgia supermarkets. The sponsor of the bill candidly admits that his bill is aimed solely against the front-end scanner.

Similar legislation has been introduced in 33 other states. Bills have been enacted into law in two states. Legislation is before the United States Congress for the same purpose--mandatory item pricing.

What better way to stifle technological advancement? What stranger reward for the initiative of an industry which has invested dollars, research and manhours in quest of greater efficiency?

Somehow the logic escapes me. But I do know this: If Robert Fulton, the Wright brothers, and Eli Whitney were in our generation, and were subjected to such premature restraints--I doubt we'd ever see a steamboat, an airplane, or a cotton gin.

The critical nature of the food distribution system in maintaining the American standards of living--indeed in maintaining our way of life--demands that we find better and more efficient operating methods.

Everyone must realize that the era of cheap food in America is over. Food is not likely to be cheap ever again. The greater efficiencies we seek are to help us keep food prices where they are, or to rise at a slower rate than they have recently.

One recent example of such improved efficiency is the use of boxed primal cuts of fresh beef.

Colonial had its last "hanging side" of beef back in August of 1973. Every ounce of fresh beef sold in our 384 stores comes to our warehouses in primal cuts--chucks, ribs, loins and rounds. Each primal cut is wrapped in airtight cryovac and packed in a box.

There are at least 25 valid reasons the conversion has increased our efficiency and improved our productivity in handling fresh beef.

Dealing strictly with primal cuts, the market manager can order exactly what he needs to serve his customers

what they want. The airtight cryovac seal provides the most effective sanitation imaginable.

Less waste is shipped with the saleable beef, and the market manager has less waste after the meat has been cut. Storage requires less space and is more convenient.

There is no more need for hanging hooks or special tools. Cutting in the market is simpler and faster, and easier for a new meatcutter to learn.

The conversion to boxed beef was a major change. It has paid off in greater efficiency and productivity.

But how many other improvements on a smaller scale are out there waiting to be implemented? What is available to us in productivity gains, with a percent or two here, and another two or three percent somewhere else.

Not just in retail, but throughout the distribution system, the opportunities are unlimited.

We must keep an eye on the future, as well as the present and the past, as we consider the opportunities for more and better research.

Look at the variety of sizes of food packages today. There has been a proliferation of the large economy size, a better buy for the larger family and the bargain shopper. Smaller sizes are more costly to manufacture, but they could well be more useful to the smaller family of the future.

It is time we had some specific numbers so that we may begin adjusting now to the preferences and demands of tomorrow's customer.

We need more research on the concept of packaging products in the field.

The obvious benefits would be in fresher, more wholesome products and more efficient movement from field to point of sale. It has been suggested that growers and processors could also benefit from a partnership by reducing costs in sharing them.

There are other factors to be considered in packaging. We already have too many different sizes of cases, and different sizes of cans and boxes within them. Even a step toward uniformity would improve the convenience of handling, shipping and storing. We all know European countries have done a much better job than America in this area.

Some outside packaging is poor, even shoddy, which can lead to a substantial and unnecessary cost in breakage, spoilage and damaged containers.

We need to develop the technology for central meat cutting and packaging operations. It is literally an uncharted area, but one of considerable promise.

One of the most exciting and productive concepts, which must be pursued more aggressively, is the automated warehouse. In refining the concept, we must design toward fewer frills--concentrate on the basics and cut away the inefficiencies built into our present systems. Our warehouses are the heart of our distribution systems, and we cannot be content to leave them as they have been for a lifetime.

A natural companion for automated warehouses is unitized handling, but advancement has been painfully slow. It is a shameful waste to continue a duplicative system of handling when alternatives are available.

We should be looking to the future now to determine the optimum size of our stores to serve future generations. We have seen the advent of the super-market, and more recently the super-store. The trend has been toward bigger with the implication that bigger is always better.

But an energy crisis in future years could be of long duration, or even permanent. The supply of energy and its cost could dictate that our stores should be smaller. It is a question we must consider--in the light that the stores being built today will be here well into the twenty-first century.

Those are only a few of the areas where our minds and our talents--and importantly, our imaginations--could be productively engaged for a long time to come.

Even the most optimistic of us would not expect lasting solutions in every instance. But any advance or significant improvement is desirable to simply waiting out the storm.

All of us need to become less labor intensive, and more capital intensive, in approaching problems and searching for solutions. At the same time, we need to look further than the bottom line.

Even in times of runaway inflation, recession and worse, our standard of living is still the highest in the world. The only way to maintain our standard of living and improve it is by increasing productivity.

We want more out of life than just our "animal needs". Living at a subsistence level should never be enough to satisfy us. It is natural and human and commendable to want more leisure time, as well as enough to eat--a luxury now and then as well as warm clothing for all the family--a vacation trip or a new television set as well as a sound roof over our heads.

Far more than the future of our industry is at stake today. I am altruistic, as well as selfish, in my determination that we will overcome these barriers--make our industry more productive--and render a great service to society by doing the job the American people have come to expect of us.

It was William Faulkner who wrote: "Man will not merely endure...he will prevail."

We have a self-imposed obligation and the stern challenge to help assure that mankind does prevail.